First Trust
Monday Morning OUTLOOK

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Strong Jobs Report Raise Odds of Rate Hike

Before Friday's jobs report, it was roughly a toss-up in the financial markets whether the Fed would raise rates at the next meeting in mid-September. Now, the odds favor a rate hike and it's not hard to see why.

Nonfarm payrolls rose 162,000 in August, easily beating the consensus expected gain of 55,000 while payrolls were revised up 55,000 for the prior two months. Remember the angst a month ago about the economy after July payrolls were originally reported down 23,000? That negative number has been revised away and is now estimated at +21,000, instead.

But it's not just payrolls that grew. Total hours worked in the private sector rose 0.3% in August and are up 1.2% from a year ago. In fact, in the past six months these hours are up at a 1.6% annual rate. This is important because it suggests the expansion in jobs should continue.

Many investors remember the "olden days" back in the 1980s and 1990s when payrolls would expand year after year by about an average pace of 275,000 per month, so must be wondering why Friday's report was perceived as so strong, particularly when the average monthly payroll gain has been only 50,000 in the past year.

But times have changed, particularly since January 2025. As we have noted several times before – right or wrong, for better or for worse – the US has shifted from an extremely loose immigration policy to an extremely tight one. And if net immigration (legal plus illegal) is roughly zero (or less!) while the native-born population ages, then the labor force is going to grow very slowly, meaning payroll growth will grow slowly, as well.

However, a rate hike later this month is far from a done deal or a slam dunk. We get two inflation reports later this week, on consumer and producer prices, and if those come in more benign than the consensus expects, that may give Chairman Warsh enough ammunition to keep rates steady.

Another reason rates may hold steady is that wage growth has been tame. Average hourly earnings rose 0.3% in August and are up only 3.1% from a year ago. In the past six months, average hourly earnings are up at only a 2.6% annual rate. If the Fed is targeting 2.0% inflation and productivity growth is in the 1.5 – 2.0% range then wage growth in the 3.5 – 4.0% range should be acceptable at the Fed, and yet recent wage growth is even slower than that!

This is one of those data sets that could help both supply-siders and Keynesians resist a rate hike. For supply-siders it suggests AI is helping boost the demand for labor. But increases in the demand for workers that reflect more production shouldn't be inflationary. That's what also happened in the 1990s during the first internet boom and was a reason why then-Chairman Alan Greenspan resisted rate hikes.

At the same time, the efficiencies created by AI may be holding down overall wage growth even though the Trump Administration's immigration policies are limiting the labor pool. Overheating this is not.

In turn, all of this is consistent with the monetarist view that policymakers need to focus more on the money supply, which has grown modestly the past few years and suggest that once we get past the initial energy shock related to the Iran War that inflation should subside anyhow, without further tightening.

In the end, the Fed's decision next week may come down to election timing. The next meeting after September is scheduled one week prior to the mid-term elections, which means policymakers will be more eager than usual to avoid controversy. And it would be hard to raise rates in October even if economic conditions warrant a hike by then, some might press for an earlier hike in September just to get it out of the way.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
9-8 / 2:00 pm	Consumer Credit – Jul	$11.3 Bil	**$11.2 Bil**		$14.2 Bil
9-10 / 7:30 am	Initial Claims – Sep 5	205K	**207K**		206K
7:30 am	PPI – Aug	+0.4%	**+0.3%**		0.0%
7:30 am	"Core" PPI – Aug	+0.3%	**+0.4%**		+0.2%
9:00 am	Existing Home Sales – Aug	3.990 Mil	**3.990 Mil**		4.060 Mil
9-11 / 7:30 am	CPI – Aug	+0.4%	**+0.3%**		+0.1%
7:30 am	"Core" CPI – Aug	+0.2%	**+0.2%**		+0.2%